

IN THE DISTRICT COURT OF LANCASTER COUNTY, NEBRASKA

STATE OF NEBRASKA, EX REL.)	Docket 466, Page 233.
WILLIAM H. MCCARTNEY,)	
DIRECTOR OF INSURANCE OF)	
THE STATE OF NEBRASKA,)	
)	REPORT NO. 29 AND
Petitioner,)	APPLICATION
)	
v.)	
)	
THE PROTECTIVE NATIONAL)	
INSURANCE COMPANY OF OMAHA,)	
)	
Respondent.)	

L. Tim Wagner, Rehabilitator of The Protective National Insurance Company of Omaha (herein "Rehabilitator"), reports the following to the Court:

1. The Protective National Insurance Company of Omaha (herein "Protective National") has been the subject of Rehabilitation Proceedings in this Court since May 24, 1991.

2. Protective National is a wholly-owned subsidiary of The Central National Insurance Company of Omaha (herein "Central National"). Protective National and Central National have been operated as affiliated Companies in the Central National insurance holding company system. As a result, there were numerous intercompany transactions and relationships, some of which continue to exist.

3. Central National has been the subject of Rehabilitation Proceedings in this Court since March 9, 1990.

4. To enable the Rehabilitator to make an independent determination about the future course of the Rehabilitation Proceedings for Protective National and Central National, all of the remaining outstanding rights and obligations between Protective National and Central National should be resolved.

5. Based upon the information available to the Rehabilitator, the Rehabilitator has entered into an Agreement on behalf of both Protective National and Central National. A copy of the Agreement is attached hereto as Exhibit "A" and incorporated herein by this reference.

6. The Rehabilitator represents to the Rehabilitation Court that in his opinion, the Agreement is not unfair or inequitable to all parties concerned, including the public and the insureds and creditors of both Protective National and Central National.

7. Based upon the financial reports prepared for Central National as of December 31, 2002, Central National is solvent and the carrying out of the Agreement by Central National would not cause Central National to become insolvent. Drum Financial Corporation (herein "Drum") is the direct sole shareholder of Central National. Hector L. Gonzalez (herein "Gonzalez") is the ultimate controlling person of Central National and Protective National. Drum and Gonzalez will be provided notice of the hearing to approve this Report.

8. Based upon the financial reports prepared for Protective National as of December 31, 2002, Protective National continues to be financially impaired. The approval of the Agreement will affect the financial resources available to Protective National during the future course of the Rehabilitation Proceedings or its liquidation, in the event that occurs. Notice of the hearing on the Rehabilitator's Application to approve the Agreement will be given in the Protective National Proceedings to the Classes of Interested Parties in the form set forth in the Rehabilitator's Report No. 28 and Application as approved by the Rehabilitation Court's Order entered October 28, 2002.

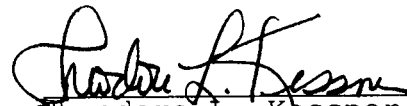
WHEREFORE, the Rehabilitator applies to the Court for an Order approving the Agreement and authorizing the Rehabilitator to carry out the terms and provisions thereof.

Dated: March 7, 2003.

L. TIM WAGNER, REHABILITATOR OF
THE PROTECTIVE NATIONAL INSURANCE
COMPANY OF OMAHA

BY: CROSBY GUENZEL, LLP
Its Attorneys
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By:



Theodore L. Kessner (12209)
One of Said Attorneys

AGREEMENT

This Agreement made by and between **THE CENTRAL NATIONAL INSURANCE COMPANY OF OMAHA (IN REHABILITATION)** (herein "Central National") and **THE PROTECTIVE NATIONAL INSURANCE COMPANY OF OMAHA (IN REHABILITATION)** (herein "Protective National").

RECITALS:

Both Central National and Protective National are the subject of separate Rehabilitation Proceedings pending in the District Court of Lancaster County, Nebraska. The assets of the Companies are in the possession of and under the general supervision of L. Tim Wagner, the duly appointed and acting Rehabilitator in both Rehabilitation Proceedings.

In his capacity as Rehabilitator of both Central National and Protective National, he, on behalf of the Companies, makes and enters into the following Agreement:

1. Central National is the parent of Protective National. Central National formed Protective National in September, 1958. Since the formation of Protective National, it has been a part of the Central National insurance holding company system. Central National has previously supported the capital needs of Protective National as demonstrated by making a contribution to Protective National policyholders' surplus of \$6,591,211 on September 1, 1975, and by the purchase of Protective National Surplus Notes in the face amount of \$10,000,000 dated May 19, 1986, by Central National and affiliated entities.

2. By entering into the Agreement made by the Rehabilitator with Drum Financial Corporation (herein "Drum") and others dated January 31, 2000, the Rehabilitator and Hector L. Gonzalez, the ultimate controlling person of Central National and Protective National, recognized that Central National may have an obligation for additional contributions to support Protective National's policyholders' surplus.

EXHIBIT "A"

3. Houghton Furr, Jr., the Deputy Rehabilitator of both Central National and Protective National, has served in those capacities since the onset of the Rehabilitation Proceedings and prior to that time participated in the financial examinations of the Companies as a representative of the Nebraska Department of Insurance. The report of the Deputy Rehabilitator dated February 25, 2003, states that, based upon the facts and circumstances known by him, it is appropriate that the intercompany relationships between Central National and Protective National be terminated on the terms set forth in this Agreement.

4. The Rehabilitator concurs in the findings of the Deputy Rehabilitator.

5. All reinsurance agreements and transactions between Central National and Protective National have been settled and resolved by agreement of the Companies except for Central National's reinsurance of certain risks insured by Protective National insurance certificates classified as "Cravens Re Facultative," "Pine Top Services Company," and "Transco Insurance Services Company" (collectively referred to as the "Programs"). Both Central National and Protective National account for their respective rights and obligations for the reinsurance of the Programs in the ordinary course of their business. As a part of this Agreement, the Companies will, upon approval of this Agreement by the Rehabilitation Court, enter into a Commutation Agreement effective as of January 1, 2003, containing usual and customary terms and provisions pursuant to which Central National's reinsurance obligations relating to the Programs terminates; in consideration therefor, Central National will pay to Protective National a commutation amount of \$963,076.

6. The purpose of this Agreement is to fully and finally resolve the outstanding issues and transactions between Central National and Protective National and separate the direct parent-subsidary relationship. Upon receipt of a contribution of \$2,000,000 and execution of the Commutation Agreement for the Programs, the Certificates representing the outstanding capital stock of Protective National held by Central National will be assigned and transferred to Drum. The two Surplus Notes in the total face amount of \$10,000,000 issued by Protective National dated May 19, 1986, now held by Central National and the Short-Term Loan Note in the face amount of

\$1,237,351 issued by Protective National to Central National dated December 28, 2001, will be canceled. The right of Protective National to borrow further funds from Central National under Sections 2.02 and 2.03 of the Agreement made by the Rehabilitator with Drum Financial Corporation and others dated January 31, 2000, will terminate; all other provisions of said Agreement will remain in full force and effect.

7. Upon closing of this Agreement, Protective National, for itself and its successors and assigns, releases and forever discharges Central National, Drum Financial Corporation, a Virginia corporation, Professional Underwriters Investment Company, a Delaware corporation, and Hector L. Gonzalez, their officers, directors, heirs, personal representatives, successors and assigns of and from all claims, known or unknown, for all intercompany transactions or obligations, except as stated in Section 8 below.

8. Central National and Protective National are parties to an Expense Sharing Agreement effective January 1, 1986, pursuant to which costs incurred for some operating functions are shared. This Agreement does not discharge Central National from providing services to Protective National or discharge Protective National from its obligations to pay its share of the operational costs incurred in the continuation of the Rehabilitation Proceedings under appropriate cost-sharing arrangements unless the Expense Sharing Agreement is terminated according to its terms.

9. This Agreement is subject to the approval of the Rehabilitation Court in both the Central National and Protective National Rehabilitation Proceedings. The transactions provided for herein will be completed and closed within 5 business days of the receipt of approval.

Dated February 28, 2003.

THE CENTRAL NATIONAL INSURANCE
COMPANY OF OMAHA (IN
REHABILITATION)

By: 

L. Tim Wagner, Rehabilitator

THE PROTECTIVE NATIONAL INSURANCE
COMPANY OF OMAHA (IN
REHABILITATION)

By: L. Tim Wagner
L. Tim Wagner, Rehabilitator